

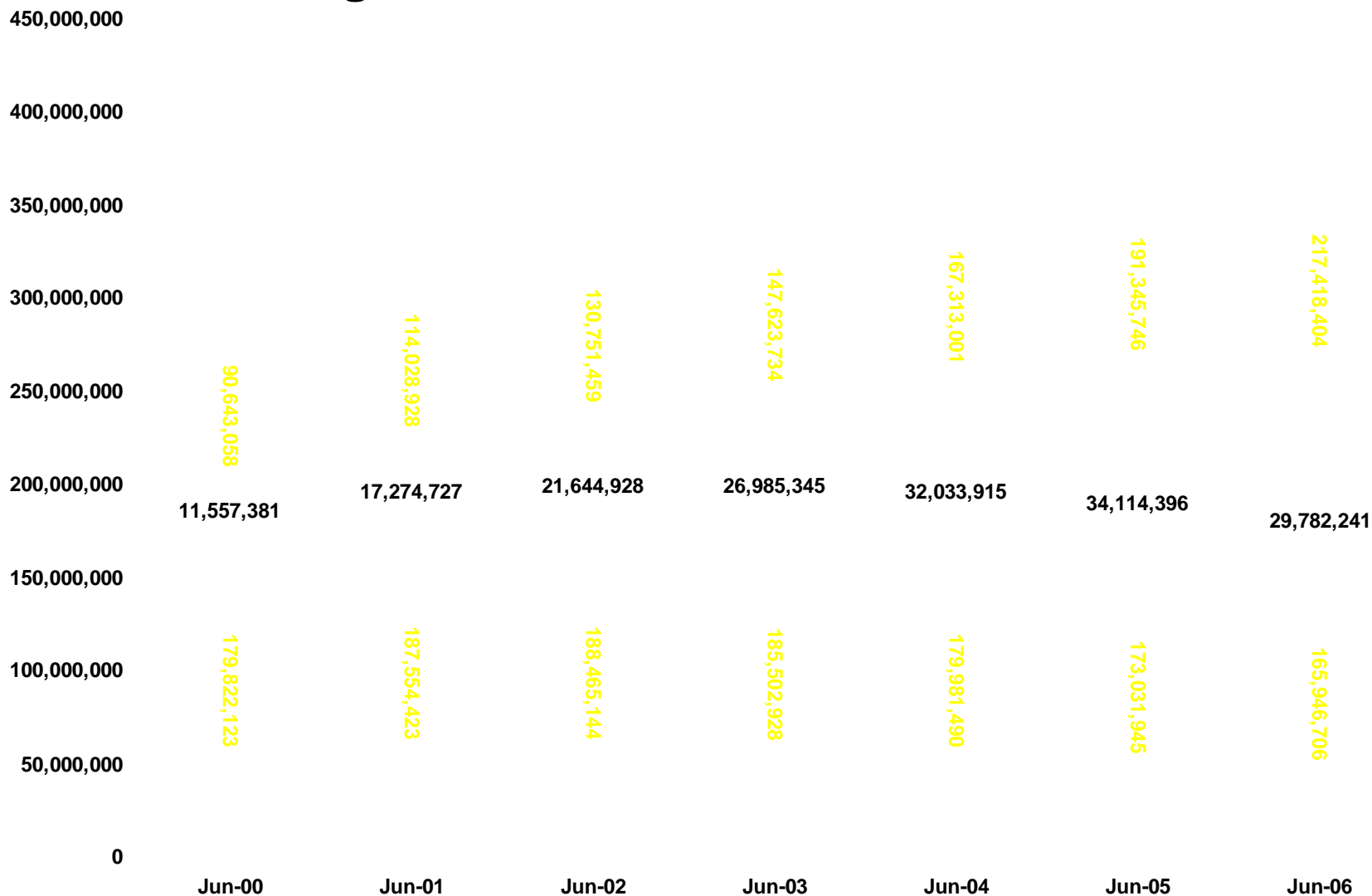
# **High-Cost Universal Service Reform Presentation to Federal-State Joint Board on Universal Service**

Paul W. Garnett

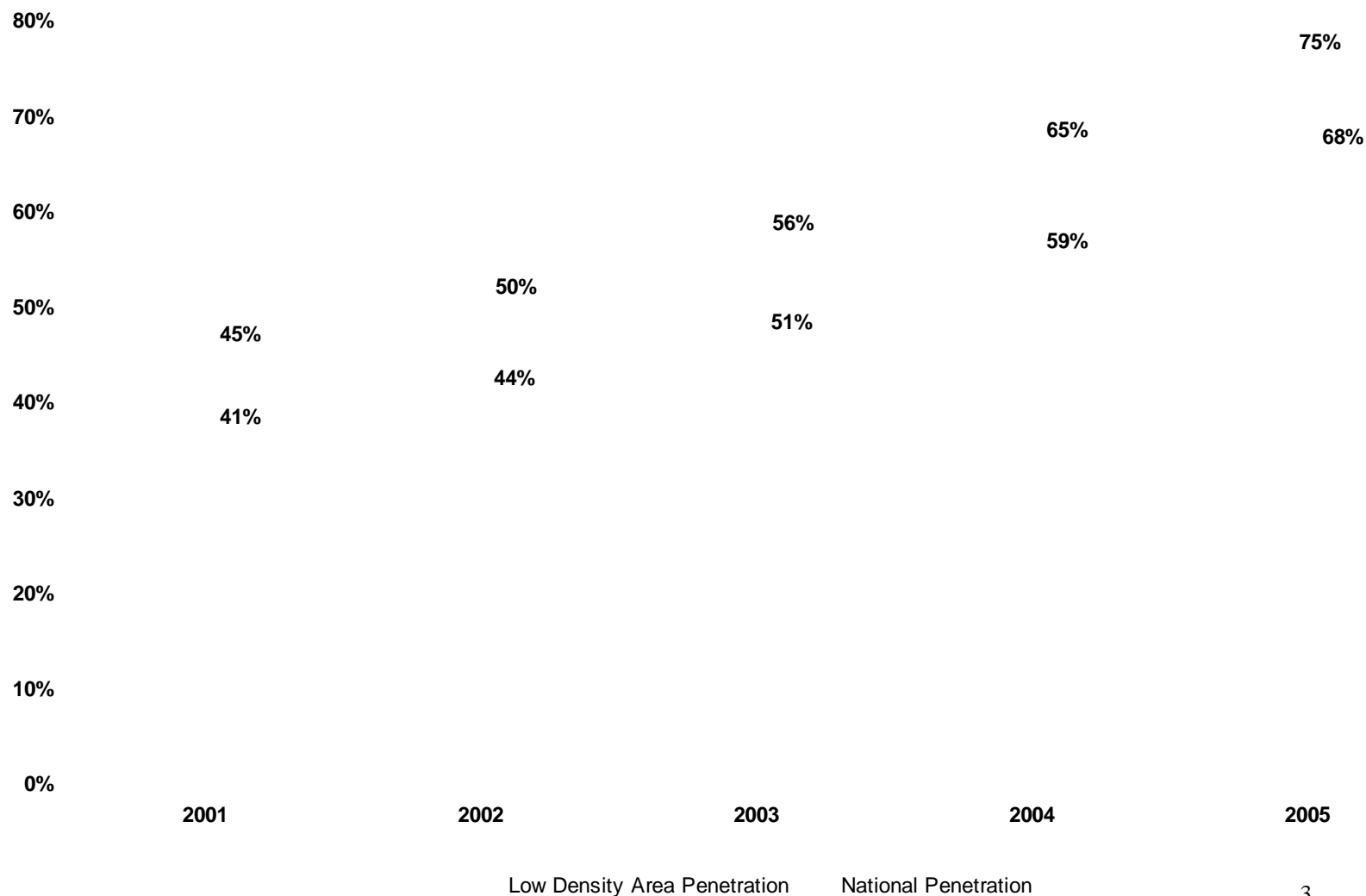
CTIA-The Wireless Association®

February 20, 2007

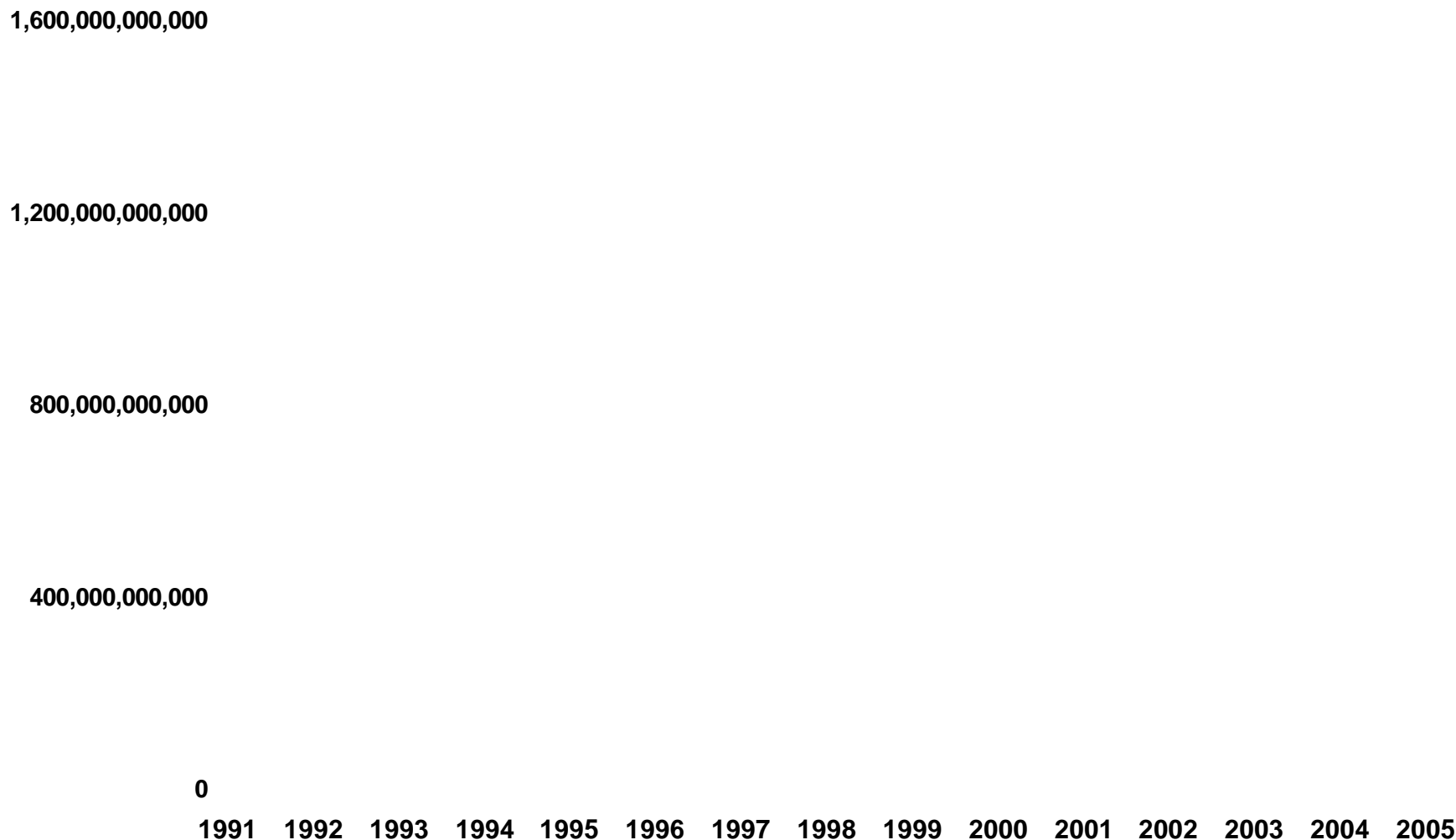
# National Wireless, ILEC and CLEC Subscriber Trends – Through June 2006



# Rural and National Wireless Penetration: Rural Equated with Fewer than 100 Pops per Square Mile



# Wireless Minutes of Use Have Consistently Climbed in Double-Digits Year-over-Year



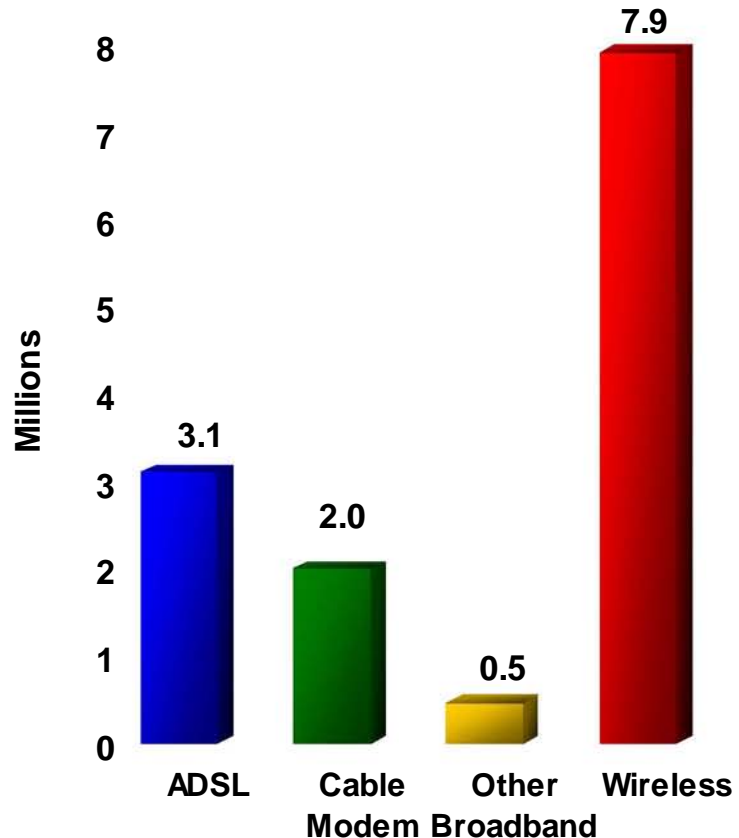
# The Growth of Wireless-only Households

- National Center for Health Statistics has been tracking the growth of wireless-only households over the past three years – including year-to-year trends, and the different distribution of such households across the country. As of Jan.-June 2006:
  - About 10.5% of households do not have a traditional landline telephone, but do have at least one wireless telephone. About 9.6% of all adults (21 million) and 8.6% of all children (>6 million) live in households with only wireless telephones.
  - Adults living in the South (11.4%) are more likely than adults living in the Northeast (7.2%), Midwest (10.2%), or West (7.8%) to be living in households with only wireless telephones.
  - Adults living in Metropolitan Statistical Areas (as defined by the Census Bureau) were more likely to live in wireless-only households than were adults living outside of Metropolitan Statistical Areas (10.3% vs. 7.0%).

# High-Speed Line Growth

- In 1H06, total high-speed lines grew 26%, from 51.2 million to 64.6 million lines, and 59% of all adds were mobile wireless subscriptions.
- From June 2005 to June 2006:
  - ADSL's share of total broadband lines fell from 38% to 35%,
  - Cable modem's share fell from 56% to 44%.
  - Mobile wireless' share of total broadband lines rose from 1% to 17% of total broadband lines.
  - The share of "other" forms of broadband (including fixed wireless, satellite, fiber, and broadband over power line) remained at 4% of total broadband lines – although their total line count grew 39%.

**High Speed Net Adds by Type, Dec. 2005 – June 2006**



Sources: FCC Report on "High-Speed Services for Internet Access," Jan. 2007.

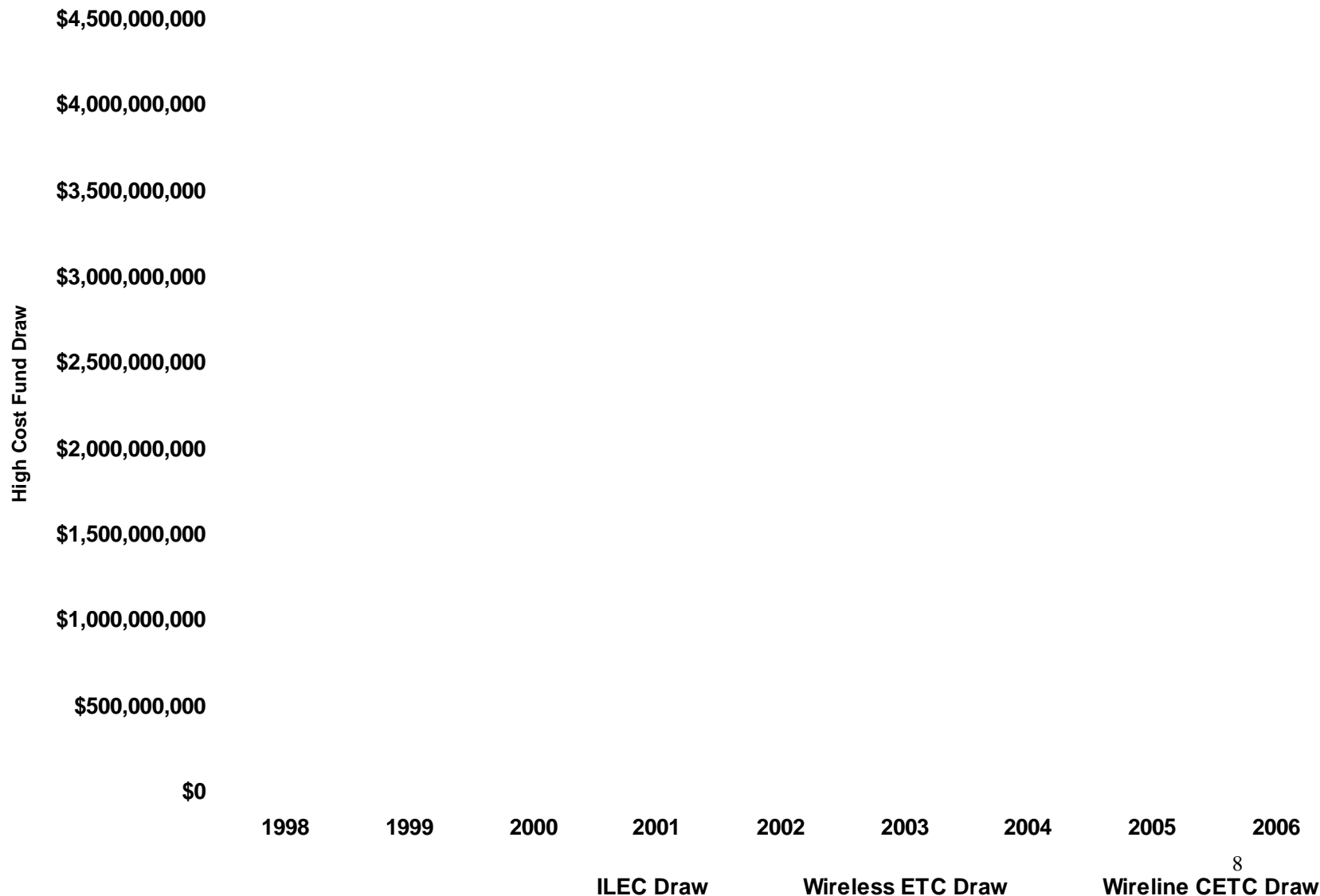
# Wireless and Wireline Shares of Cumulative High Cost Support Drawn from the Federal Universal Service Fund: 1998 - 2005

**ILEC Support**  
**\$20,939,911,241**  
**94.7 % of all High**  
**Cost Support**

**Wireless ETC Support**  
**\$1,115,001,219**  
**5.0 % of all High Cost**  
**Support**

**Wireline CETC Support**  
**\$52,654,862**  
**0.3 % of all High**  
**Cost Support**

# Distribution of High Cost Support





# Key Elements of Any High-Cost Universal Service Mechanism

- Competitive- and Technological-Neutrality
- Efficiency

# Universal Service Reverse Auctions

- CTIA supports competitively- and technology-neutral reverse auctions to determine high-cost universal service support.
  - As the success of the wireless industry demonstrates, auctions are a proven method for allocating a limited resource.
  - Universal service auctions have worked well in other countries and can work in the United States.
  - If properly designed, reverse auctions can serve as a market-oriented means to place disciplines on the size of the universal service fund while still achieving important universal service goals.
- CTIA also continues to support other reforms to better target support and encourage and reward efficiency.
- Key elements to CTIA's support for reverse auctions:
  - The pool of eligible bidders must be maximized.
  - Wireless and wireline ETCs should compete in the same auction.
  - “Winner Gets More” auctions.\*

\* Only one “winner”, but “losers” eligible for some lesser amount of per-line support.

# Reverse Auctions – A Measured Transition

- The transition to reverse auctions should occur in stages:
    - Short Term (Implement between now and January '08):
      - Mandatory disaggregation ( $\geq 2$  zones);
      - 6-month deadline for consideration of ETC petitions; and
      - Upgrade antiquated model to improve accuracy.
    - Medium Term (Implement January '09):
      - Transition ILECs with  $\geq 50,000$  access lines in a state (and their competitors) to model-based support;\* and
      - Perform reverse auction pilots.
    - Long Term (Implement January '11):
      - Transition remaining ILECs (and their competitors) to a single model-based support mechanism;
      - Eliminate 54.305 transfer rule; and
      - If pilots successful, rollout reverse auctions nationally.
- \* In the alternative, incumbent LECs should be limited to one study area per state (*i.e.*, study areas combined).